



MAYOR AND COUNCIL AGENDA

NO. 7

DEPT.: Community Planning and Development Services DATE PREPARED: 5/13/05
STAFF CONTACT: Arthur D. Chambers, AICP, Director FOR MEETING OF: 5/16/05

SUBJECT: Discussion of Business Incubator.

RECOMMENDATION: Discuss the issues associated with the creation of a business incubator and provide policy direction.

DISCUSSION:

Earlier this year Rockville Economic Development, Inc. (REDI) presented a study on business incubators and their feasibility in Rockville. Since that work session, REDI, the City and Montgomery County have discussed the potential for creating a business incubator. The study analyzed operating budget in terms of revenues and expenses. As another part of the study several sites were analyzed in terms of land costs and construction costs. After reviewing and discussing the study, it was decided that a favorable location would be in Town Center as part of the Cultural Arts Building (CAB). As the discussion continued, the County began to express an interest in operating the business incubator. REDI was able to get a commitment from TEDCO for a million dollar grant to help fund a two-story, 25,000 sq. ft. incubator.

More recently a draft memorandum of understanding (MOU) (Attachment 1) between the City, the County and MEDCO was prepared. That MOU sets forth each participant's responsibilities. The City would contribute land, some construction costs, soft costs, etc. MEDCO would provide the financing and the County would be responsible for construction of two floors in the Cultural Arts Building, fit out of the two floors, as well as operating the incubator. To date, the County has not made a firm, formal commitment to funding their portion of the costs.

Prior to final commitments, there are still many details to be resolved. Assuming that all details can be reconciled, the City would construct a five-story building and then sell two floors to MEDCO/Montgomery County. In order to construct the CAB so it can open in late 2006 the architect needs to have construction documents prepared by July 2005. However, it is unlikely that all of the details can be finalized in the next sixty days.

While final resolution of financing commitments have not been made, the architect needs to continue designing the building so it can open with the rest of the Town Square Project. One option would be for staff to continue to work with Montgomery County to finalize as many details as possible over the

ROCKVILLE TECHNOLOGY BUSINESS INCUBATOR
Non-Binding Memorandum of Understanding

5/11/2005

The City of Rockville, Maryland (the "City"), Montgomery County, Maryland (the "County"), and the Maryland Economic Development Corporation ("MEDCO") hereby agree to cooperate on the development, construction and operation of a technology business incubator to be located in a building to be constructed in the Rockville Town Center. This five-story building will be developed as a multi-unit commercial condominium on land donated by the City.

This non-binding Memorandum of Understanding ("MOU") describes the project as currently contemplated and sets forth the roles and responsibilities among the parties, which will be fully developed in a number of related documents. These documents, which will include—among others—a Sales and Purchase Agreement (to be executed by September 15, 2005) and the Condominium Documents (to be executed by September 30, 2005), will be subject to the review and approval of the parties' governing bodies. The City will assume the legal costs associated with the development of the Condominium Documents, and the County will be responsible for the development of the Sales and Purchase Agreement.

Building Description:

The City will develop a five-story cultural arts building, for which a portion of the first floor will be owned by Federal Realty Investment Trust for retail/restaurant uses; floors two and three will be owned by the City and leased to the Rockville Arts Place for art education, exhibition and studio space; and floors four and five will be owned by MEDCO (for the life of the bonds MEDCO will issue) and leased to the County for the purpose of operating a technology business incubator. The total building will consist of approximately 63,750 square feet--12,750 square feet per floor--bringing the size of the incubator to approximately 25,500 square feet. The incubator, and all units in the condominium, will be subject to the condominium fees as prescribed in the Condominium Documents.

Site:

The condominium building will be located in Rockville Town Center on a site bounded by Beall Avenue on the north, Newarket Street on the west, the Town Square in Rockville plaza on the south, and Maryland Avenue on the east (see Exhibit A-Block 3A). The City will donate ownership of the land on which the building will sit and will contribute the costs associated with preparation of the building pad. The parties will recognize the land and site preparation costs as part of the City's contribution toward the incubator project.

Project Financing:

The parties will participate in the financing of the incubator as follows in cash-flow order:

MD Technology Development Corp. (TEDCO) grant (to be assigned by REDI)	\$ 1,000,000
City (land and site preparation costs)	\$ 703,820
County	\$
MEDCO taxable bond issuance/mortgage	
\$	
TOTAL	\$5,975,909

MEDCO will be responsible for the financial management of the funds being provided through its bond issuance, the TEDCO grant and the County's contribution through its Capital Improvements Projects Budget. Debt service payments on the MEDCO bonds will come from a combination of the net operating income from the incubator's operations and an annual grant made by the County to MEDCO as part of the County's overall incubator program. TEDCO will participate only to the extent of providing grant financing for the incubator.

Building Design and Construction:

The City will select all contractors related to the design and construction of the core and shell of the five-story building, and will manage such contracts on behalf of all condominium owners. MEDCO will make monthly progress payments on behalf of the condominium units it will own and lease to the County for an incubator. Construction is anticipated to commence on November 1, 2005, and will continue for the following fifteen months.

The City will deliver to MEDCO a warm dark shell of two stories to include the following: HVAC systems, elevators, utilities, exterior lighting, core walls with unfinished drywall, fire sprinkler system and other life safety systems. MEDCO and the County will work closely with the City in the design of the base building in order for MEDCO's and the County's requirements to be adequately incorporated into the building.

Interior Space:

MEDCO will complete the interior space for the incubator, using the funds from its bond issuance, the TEDCO grant and County funds. MEDCO shall have the right to select an architect or general contractor mutually agreeable to MEDCO, the City and the County to design/construct the interior layout of the incubator. MEDCO may, however, enter into an agreement with any of the contractors selected by the City for the purpose of designing/constructing the incubator. The City shall have the opportunity to review interior plans. The City, County and MEDCO may, upon mutual agreement, agree to assign responsibility of interior design and build-out to the City.

Incubator Ownership:

MEDCO will have an ownership interest in the incubator until such time that the County repays its indebtedness to MEDCO for the condominium units, at which time MEDCO will convey their interest in the units to the County for no additional consideration. Although it is the County's intention to use the MEDCO/County-owned two floors of the condominium for a business technology incubator, the County may change the use of this space to any lawful purpose consistent with the limitations of the Declaration of Covenants, Conditions, and Restrictions creating the Condominium, provided that such use is also mutually agreed upon by the City, County and MEDCO. If the County, after assuming total ownership from MEDCO, determines that its two units in the condominium are surplus space, it will offer the City the first option to purchase its units.

Operation:

The County, as part of its successful incubator program, will be responsible for the day-to-day operations of the incubator including marketing, tenant selection, space maintenance and internal programming. The City—represented by Rockville Economic Development Inc.—will retain a seat on any advisory body established to oversee the incubator.

Disclaimer/Contingency:

The ability of MEDCO to commit to the financing of incubator construction costs is dependent on the ability of the County and MEDCO to successfully sell bonds needed for this endeavor. In the event that this financing is not available, the County will reimburse the City for 50% of the additional costs associated with designing the incubator "shell," estimated to be \$89,000, or a pro-rated share if evidence of such non-funding becomes known before the building design is completed, subject to an appropriation of the Montgomery County Council (Peter to check.).

Agreed & Accepted:

City of Rockville, Maryland

By: _____
Scott Ullery, City Manager Date Witness

Montgomery County, Maryland

By: _____
Scott W. Reilly, Assistant Date Witness
Chief Administrative Officer

Maryland Economic Development Corporation

By: _____
Robert C. Brennan, Date Witness
Executive Director